

Message Text

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PAGE 01 GENEVA 08834 01 OF 02 092152Z

ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05

SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01

DOE-15 AF-10 ARA-10 EA-10 NEA-11 STRE-00 OIC-02

OES-07 DLOS-09 /185 W

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P 092110Z JUN 78

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 0701

INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 08834

USMTN

ACTION STR PASS ELECTRICALLY

STR PASS CODEL

E.O. 11652: N/A

TAGS: ETRD, MTN, CA

SUBJECT: U.S.-CANADIAN TOUR D'HORIZON BILATERAL JUNE 7

1. SUMMARY. U.S.-CANADIAN TOUR D'HORIZON MARKED BY GENERALLY POSITIVE, THOUGH USUALLY UNSPECIFIC, CANADIAN ATTITUDE TO THE VARIOUS AREAS OF NEGOTIATION, PARTICULARLY IN TARIFFS. ONLY MAJOR FLARE-UP RESULTED FROM REQUEST BY U.S. FOR CANADA TO COME FORWARD WITH ITS IMPROVEMENTS IN CONNECTION WITH JUNE 19-20 BIG FOUR MEETINGS IN WASHINGTON. ON CUSTOMS VALUATION, CANADA OUTLINED POINTS NECESSARY FOR FULL CANADIAN PARTICIPATION. MCDONALD AND GREY AGREED TO MEET AGAIN NEXT WEEK TO FOCUS ON ISSUES TO BE DISCUSSED IN WASHINGTON. END SUMMARY.

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PAGE 02 GENEVA 08834 01 OF 02 092152Z

2. U.S. DELEGATION (MCDONALD ET AL) MET ON JUNE 7 WITH AMBASSADOR GREY AND CANADIAN MTN DELEGATION FOR TOUR D' HORIZON IN PREPARATION FOR BIG FOUR MEETINGS IN WASHINGTON JUNE 19-20. GREY OPENED MEETING BY ACKNOWLEDGING U.S. TARIFF OFFER EXCEEDED CANADA'S AND INDICATING CANADA'S DISPOSITION TO IMPROVE ITS OFFER. DISCUSSION OF

PARTICULAR PRODUCT AREAS, NONFERROUS, FOREST PRODUCTS, CHEMICALS, AIRCRAFT, FISH, GENERALLY PINPOINTED NEED FOR IMPROVEMENTS BY EITHER JAPAN OR THE EC OR BOTH. GREY EMPHASIZED THAT IT WOULD BE EXTREMELY DIFFICULT TO GET CANADIAN MINISTERS TO DECIDE ON IMPROVEMENTS, AND THEREFORE THEY DIDN'T WANT TO REQUEST ANY MORE AUTHORITY THAN WAS NECESSARY TO PAY FOR WHAT COULD BE REALISTICALLY EXPECTED FROM OTHER COUNTRIES. GREY REPEATEDLY ASKED FOR SPECIFIC LIST OF ITEMS OF INTEREST TO CANADA WHICH DEPENDED ON THE EC AND/OR JAPANESE, AND STRESSED THE DIFFICULTY IN IMPROVING THE CANADIAN OFFER ABSENT ANY PROGRESS FROM THE JAPANESE ACROSS THE BOARD AND THE EC ESPECIALLY ON FISH.

3. IN RESPONSE TO CANADIAN OPENING STATEMENT, MCDONALD STATED THAT U.S. STILL SEEKING TARIFF AGREEMENT RESULTS AT LEAST EQUAL TO KENNEDY ROUND REDUCTIONS. HE NOTED THE U.S. WANTS A REAFFIRMATION OF THIS GOAL ON JUNE 19 BY ANNOUNCING IMPROVEMENTS AND THAT A CANADIAN OFFER ON THAT DATE IS IMPORTANT TO SUCH AN ANNOUNCEMENT. LINKAGE OF TARIFF IMPROVEMENTS TO THE JUNE DATE SPARKED A HEATED DISCUSSION WITH GREY EMPHASIZING IMPOSSIBILITY OF A SPECIFIC CANADIAN RESPONSE AND MCDONALD STRESSING THAT THE U.S. CAN'T HOLD FORTH MUCH LONGER HAVING THE MOST SUBSTANTIAL OFFER ON THE TABLE. GREY INDICATED THAT CANADA WANTED TO BE HELPFUL BUT BOTH COUNTRIES LIMITED OFFICIAL USE

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PAGE 03 GENEVA 08834 01 OF 02 092152Z

SHOULD LEAN ON THE EC AND JAPAN, THE REAL PROBLEMS. HE ALSO AGAIN ASKED FOR POSSIBLE U.S. WITHDRAWALS SO THAT CANADA COULD KNOW WHAT THE COST IS. GREY OFFERED TO TRY TO WORK OUT FINALLY A FORMULATION OF WORDS WHICH WOULD INDICATE CANADA'S INTENTION TO CONTRIBUTE ADDITIONAL OFFERS.

4. SOME HIGHLIGHTS OF THE TARIFF DISCUSSIONS:

A. FOREST PRODUCTS AND NON-FERROUS: CANADA STRESSED NEED FOR IMPROVEMENTS BY JAPAN AND EC. U.S. INDICATED OUR SIMILAR PROBLEMS WITH EC ON WOOD AND PAPER BUT NOTED THAT OUR NON-FERROUS INDUSTRY WAS NOT EXPORT-ORIENTED AND DID NOT APPRECIATE OUR FORTHCOMING OFFER IN THEIR SECTOR. MCDONALD INDICATED THAT OFFER STATUS OF ZINC SLABS WAS NOW UNDER STUDY AS A RESULT OF THE RECENT ITC 201 ACTION. GREY ANNOUNCED THAT CANADA WAS OFFICIALLY FILLING IN ITS OFFER ON THOSE SECTOR ITEMS LEFT BLANK ORIGINALLY IN THE CANADIAN CONSOLIDATED OFFER. MOST OF THE OFFERS SPECIFIED WOULD BE GREATER-THAN-FORMULA TO HARMONIZE WITH THE U.S. OFFER.

B. CHEMICALS: GREY ASKED HOW ACTUAL WITHDRAWAL OF EC ITEMS WOULD AFFECT U.S. CHEMICAL OFFER. U.S. RESPONDED THAT WE ARE STILL PUTTING PRESSURE ON ALL COUNTRIES FOR MAXIMUM REDUCTIONS AND IF THEY ARE NOT FORTHCOMING, WE WOULD NOT BE SURPRISED TO SEE SOME WITHDRAWALS. IN FACT, U.S. CHEMICAL INDUSTRY IS ANXIOUS ABOUT LONG-TERM OVERCAPACITY AND HAD ALREADY DRAWN UP LIST OF 96 ITEMS.

C. FISH: THE EC HAS NOT YET MADE ANY OFFER ON FISH. CANADA CONSIDERS AN AGREEMENT ON FISH VITAL FOR BOTH POLITICAL AND ECONOMIC REASONS. GREY LOOKED FORWARD TO THE BILATERAL DISCUSSIONS ON FISH WITH THE U.S. SCHEDULED FOR JUNE 9.
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PAGE 04 GENEVA 08834 01 OF 02 092152Z

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PAGE 01 GENEVA 08834 02 OF 02 092155Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 GENEVA 08834

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D. BEVERAGES: GREY ASKED WHETHER THE U.S. WAS

REALLY GOING TO MAKE AN OFFER ON WINE GALLON/PROOF GALLON,
AND IF SO, WHAT DO WE WANT FOR IT. MCDONALD RESPONDED
THAT THE U.S. WILL NOT ITSELF PUT A PRICE TAG ON IT,
BUT AS YET WE HAD NO INDICATIONS WHAT OTHERS WERE
WILLING TO PAY.

E. MADE IN CANADA AND MACHINERY PROGRAM: BOTH
AMBASSADORS AGREED THAT EVERY EFFORT SHOULD BE MADE TO
REDUCE THE SCOPE OF THESE PROVISIONS WHICH WERE A MAJOR
IRRITANT IN U.S.-CANADA TRADE RELATIONS.

5. THE FOLLOWING ISSUES ARE COVERED IN DETAIL IN
SEPTELS:

A. SUBSIDIES/COUNTERVAILING DUTIES: CHARACTERIZING
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PAGE 02 GENEVA 08834 02 OF 02 092155Z

THE PRESENT DRAFT AS TOO MUCH RHETORIC AND NOT ENOUGH
REAL OBLIGATIONS, GREY REPEATED WELL KNOWN POSITIONS
THAT (1) CANADA SHOULD BE INCLUDED IN MORE OF THE
SUBSIDIES/CVD DISCUSSIONS AND (2) SPECIFIC LIMITS SHOULD
BE ESTABLISHED ON GOVERNMENT AIDS.

B. VALUATION: GREY ANNOUNCED THAT CANADA WAS THAT
DAY CIRCULATING A PAPER INDICATING THE ELEMENTS NECESSARY
FOR CANADIAN PARTICIPATION IN A CUSTOMS CODE. U.S.
NOTED DIFFERENCES IN POSITION ON DEROGATIONS TO THE
CODE AND MCDONALD STATED U.S. WOULD NOT ACCEPT ANY
DEROGATIONS SINCE THAT WOULD ONLY BEGIN A PROCESS OF
UNRAVELING.

C. SAFEGUARDS: GREY INDICATED THAT MAJOR ISSUE
IS NOT SELECTIVITY NOW WHICH HE CONSIDERED MANAGEABLE
BUT THE OVERALL BALANCE OF THE CODE BETWEEN RESPONSES
TO SAFEGUARD ACTIONS AND DISPUTE SETTLEMENT/SURVEILLANCE.
U.S. ASSURED CANADA THAT WE WERE SEEKING GREATER
DISCIPLINE OVERALL RATHER THAN WEAKENING THE SYSTEM.

D. SUPPLY: GREY SAID THAT U.S., BY PUSHING SUPPLY
ISSUE, IS TAKING AWAY CANADA'S LEVERAGE WITH EC AND
JAPAN ON TARIFF REQUESTS SECTOR ITEMS. ACCORDING TO
GREY, ONCE CANADA'S MARKET ACCESS OBJECTIVES ARE MET,
CANADA WOULD AGREE TO INCREASED RIGHTS AND OBLIGATIONS.
HE OFFERED TO CIRCULATE A NEW PAPER BUT THE U.S. URGED
THAT IT BE SHOWN TO US PRIVATELY FIRST AND NOT CIRCULATED
GENERALLY.

E. AGRICULTURE: U.S. STRESSED IMPORTANCE OF DEALING
WITH FRUITS AND VEGETABLES ARTICLE XXVIII AS SOON AS
POSSIBLE IN THAT THIS PROBLEM CONSIDERABLY NARROWED

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PAGE 03 GENEVA 08834 02 OF 02 092155Z

THE SCOPE FOR MTN NEGOTIATIONS ON AGRICULTURE.

6. COMMENT: MOST IMPORTANT OUTCOME OF BILATERAL WAS GREY'S INDICATION THAT CANADA COULD NOT MOVE RAPIDLY IN TERMS OF TABLING IMPROVEMENT OF ITS TARIFF OFFERS. MCDONALD CONTINUED TO INSIST THAT CANADIAN MOVEMENT SOON IS ESSENTIAL TO HOLD U.S. POSITIONS. HE WILL BE TALKING WITH GREY NEXT WEEK TO SEE WHAT FORWARD MOTION CAN BE ACHIEVED AT JUNE 19 MEETING. CANADIAN DEL SEEMS TO UNDERSTAND THE DANGER TO CANADA OF NOT MOVING SWIFTLY TO IMPROVE ITS OFFERS BUT THIS SENSE OF URGENCY DOES NOT APPEAR TO BE SHARED BY OTTAWA, WHERE THE BUREAUCRACY SEEMS RELUCTANT TO APPROACH MINISTERS WITHOUT A CLEAR-CUT PACKAGE.

7. DRAFTED BY WHITE. MCDONALD

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